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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
12 October 1954

TO: Deputy Director (Intelligence)
SUBJECT: Comment on Sino-Soviet Communiqué of 11 October

The Sino-Soviet communiqué issued in Peiping on 11 October illustrates Moscow's treatment of the Peiping regime as a great power ally capable of managing its own affairs. It also illustrates the Soviet preference for publicizing economic aid to Peiping rather than Soviet military commitments to China.

Several agreements were concluded in negotiations between the Soviet delegation, headed by party leader Khrushchev, and Communist China's big four of Mao Tse-tung, Liu Shao-chi, Chou En-lai and Chu Teh. The communiqué states explicitly that the two governments enjoy a "complete unity of views" in regard to both Sino-Soviet relations and foreign affairs.

In the economic field, the communiqué announces the abolition of the four Sino-Soviet joint stock companies as of 1 January 1955, the projected construction of two new railroad links between the USSR and China, and new Soviet industrial credits to China totalling \$130,000,000 of which \$30,000,000 is for 15 industrial projects recently added to the aid program.

Following a similar retrenchment of direct Soviet administration of economic enterprises in Eastern Europe, every Sino-Soviet joint stock company is to be abolished. Soviet influence may continue to predominate, however, in the Dairen shipyard, which has been engaged fulltime in repairing Soviet ships and building harbor craft for the USSR, and the Sinkiang mining company, a suspected source of uranium. Peiping is to pay an unstated amount for the Soviet share of these companies as well as the Sinkiang oil company and SKOGA, the airline which operates three routes between Peiping and the USSR.

There is a surprise in the communiqué's disclosure that the projected Sino-Soviet railroad through Mongolia is to be finished next year.

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The other railroad through Sinkiang is not expected to be completed until the 1960's. Peiping started building its end--1,739 miles from Lanchow in Kansu to the Soviet border--in 1952. The 11 October communiqué, the first public statement on Soviet participation in this project, calls for the USSR to begin construction from Alma Ata to the Sinkiang border "in the nearest future." The completion of these two projects would reduce the burden on the Transsiberian and Manchurian rail lines and would also reduce the vulnerability of these lines to air interdiction.

The new Soviet credit to China of 520,000,000 rubles (\$130,000,000 at the official rate of exchange) brings total Soviet financing of its ten-year (1950-59) aid program to \$430,000,000 (the current credit plus the 1950-54 credit of \$300,000,000). The small monetary value of Soviet economic aid to China is believed to have caused some Chinese dissatisfaction in the past year, and the total is still a relatively modest sum. The program has, however, included delivery of key equipment not available to Peiping from other sources.

The size of the aid program has been increased to 156 projects, as compared with the 141 projects announced in September 1953.

The only military agreement disclosed in the communiqué is for the withdrawal of Soviet forces from the Port Arthur naval base, and the turnover gratis to the Chinese of Soviet installations there, by 31 May 1955. Under the terms of the Sino-Soviet treaty of 1950 Soviet troops were to be withdrawn by the end of 1952, but in September 1952 it was announced that Peiping had "requested" Moscow to retain its troops there. It was believed that Peiping genuinely desired retention of these troops as an added Soviet commitment to China's defense. As the 11 October communiqué notes, however, the truces in Korea and Indochina and the strengthening of Chinese Communist military capabilities have reduced the need for a strong Soviet position in Port Arthur, where the Russians now have 60,000 troops, 570 aircraft, 12 submarines, and small surface craft.

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The agreement on Port Arthur seems connected too with recent Sino-Soviet conciliatory gestures toward Japan. Whereas the Japanese threat was invoked in 1952 as grounds for retaining Soviet troops in Port Arthur, the current communiqué looks toward the "normalization" of relations with Japan to take care of this situation. The communiqué does not seem to alter the Communist demand, however, for Japan to become "independent" of the United States, and thus does not appear to constitute a new offer.

The communiqué repeats routine charges that the United States is "preventing" Peiping from entering the United Nations and is committing "direct acts of aggression" against Communist China such as the "continued occupation" of Formosa. The current Port Arthur agreement may have been aimed in part at embarrassing the United States on the issue of Formosa. The communiqué's language on Formosa questions is mild, does not mention "liberation" of Formosa, and in all suggests that further Sino-Soviet diplomatic maneuvers on Formosa will be forthcoming, rather than an early Soviet-supported military operation against Formosa.

The communiqué repeats Communist demands for "reunification" of Korea and calls for a new Korean conference. It also repeats recent Communist denunciations of the Manila pact-- "an aggressive military bloc in Southeast Asia"--and recent Communist endorsement of Chou En-lai's five principles of "non-aggression" for Asian relations generally.

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NOTE: This memorandum has been coordinated with ORR.

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